Unlocking Credit to Spur Growth: USAID's Development Credit Authority

Ed Roche
Office of Development Credit
US Agency for International Development
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Finance and Growth

- Lending to private sector fuels growth
- Starting new businesses, growing existing businesses, purchasing homes, developing infrastructure – facilitated by access to credit
- Economic stagnation of LDCs partly due to lack of credit

USAID provides partial credit guarantees to local, private lenders

Purpose

– Mobilize local private capital
– Demonstrate the economic viability of investments
– Address market imperfections

Characteristics

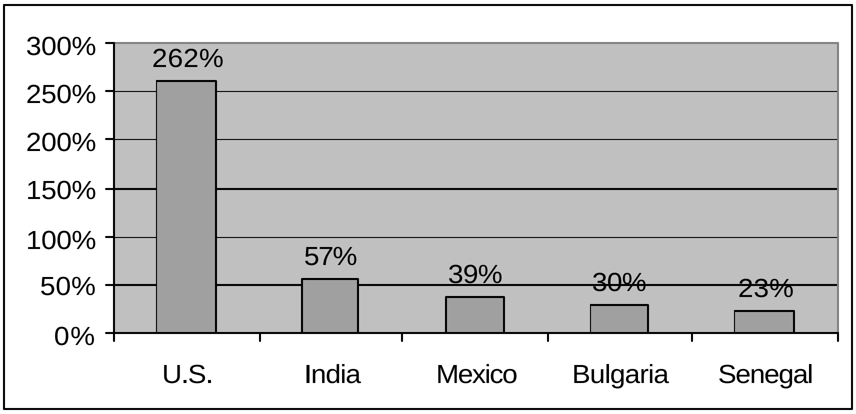
– Backed by the full faith and credit of US Government
– Risk sharing with private sector on losses realized
– Currency mismatches are discouraged
– Local USAID Missions source and implement guarantees

Untapped Opportunity

- Substantial liquidity in banking sector (30% to 70% of total deposits)
- Un-mobilized domestic savings (mattress money, capital flight)
- Potential impact on growth from increased credit: 1% to 2.5% boost to GDP annually

Domestic Credit Provided by the Banking Sector

(as a percentage of GDP)



Barriers to Credit

- Rule of Law; Enforcement of Contracts
- Collateral laws and land-titling
- Asymmetric Information;
  No Credit History
- Government Deficits, Crowding Out
- High-Risk Perception of Lenders

Impact of Credit Guarantees

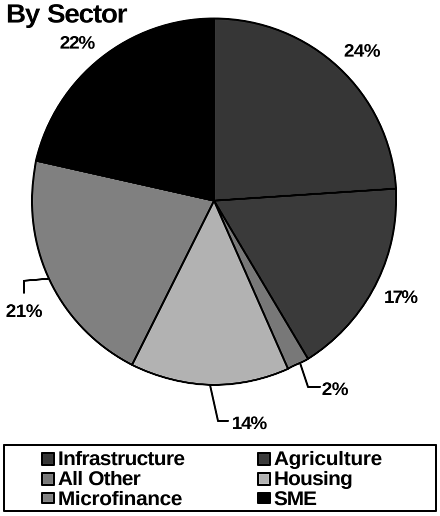
- Lower Collateral Requirements
- Longer-term Financing
- Reduced Risk Perception

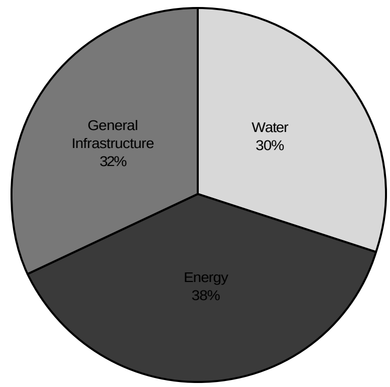
Guiding Principles

- True Private Sector Risk-Sharing
- Market Imperfections
- Additionality
- Financial Viability

Breakdown of Portfolio

By Sector





Questions?
Edward Roche
eroche@usaid.gov
202-712-0277